OCEAN
TAX ADVISORS

# Reasonable Compensation Report

Sarah Johnson
of Johnson Creative LLC

| TAX YEAR | REPORT DATE | PREPARED BY | APPROACH |
|---|---|---|---|
| 2026 | October 30, 2026 UTC | Ocean Tax Advisors | Cost |

*Source: Bureau of Labor Statistics OEWS May 2025 wage data, ECI-adjusted*

# Executive Summary

ESTIMATED ANNUAL REASONABLE COMPENSATION (COST APPROACH)

**$67,468.13**

This report estimates the value of the work performed by the member for the S corporation each year. It applies a methodology designed to determine the amount that would ordinarily be paid for like services by like enterprises under like circumstances (Treas. Reg. §1.162-7(b)(3)).

| | |
|---|---|
| **Entity Type** | LLC taxed as S corporation |
| **Wage Area** | Columbus, OH |
| **Hours Worked** | 2,080 per year (40 hrs/week) |
| **Wage Data** | BLS OEWS May 2025 |
| **ECI Adjustment** | +1.89% (ECI index 173.199 at May 2025 to 176.481 at January 2026) |
| **Engine Version** | v1.2.1 |

### SCOPE AND RELIANCE

Prepared under the direction of Ocean Tax Advisors using WageProof's methodology engine and Bureau of Labor Statistics data. It has not been reviewed for accuracy by WageProof. This report does not constitute tax, legal, or financial advice. Consult a qualified tax advisor before making compensation decisions. Actual reasonable compensation may vary based on individual circumstances. This report does not guarantee that the IRS will accept this figure, that you will prevail in an audit, or that you will avoid penalties, and it creates no professional-client relationship with WageProof.

All salary and reasonable compensation figures are expressed annually and in U.S. dollars.

Appendix B sets out the full methodology, and Appendix C the tables applying it to this report.

# Cost Approach Detail

The hourly figures are BLS-published wages adjusted to the 2026 tax year with the Employment Cost Index (ECI). Appendix B describes the method and Appendix C shows how it was applied to this report.

| Task | Wage area | BLS percentile | % hours | Hours | Hourly rate | Amount |
|---|---|---|---|---|---|---|
| Graphic Designers | Columbus, OH OEWS May 2025 | 50th | 35% | 728 | $31.35 | $22,824.95 |
| Market Research Analysts and Marketing Specialists | Columbus, OH OEWS May 2025 | 50th | 25% | 520 | $37.72 | $19,615.11 |
| General & Operations Manager | Columbus, OH OEWS May 2025 | 50th | 10% | 208 | $50.25 | $10,452.91 |
| Secretary / Administrative Assistant | Columbus, OH OEWS May 2025 | 50th | 20% | 416 | $23.45 | $9,753.51 |
| Billing & Invoice Clerk | Columbus, OH OEWS May 2025 | 50th | 10% | 208 | $23.18 | $4,821.65 |
| **Total** | | | 100% | 2,080 | | **$67,468.13** |

# Circumstances That May Warrant Adjustment

The Reasonable Compensation Job Aid for IRS Valuation Professionals identifies specific situations that can move a reasonable figure up or down. Consider whether any of the following apply:

- Compensation paid to comparable non-owner employees
- Whether prior years were paid below market, including any deferred compensation for those years
- A personal guarantee of company debt
- The owner as a key person whose loss would materially reduce company value
- The company's financial condition and ability to pay
- The pattern of distributions relative to wages
- Whether the role's duties and pay are documented in a written compensation agreement

Courts and the IRS have applied multi-factor tests when evaluating whether compensation is reasonable. Leading authorities on reasonable compensation include:

1. Multi-factor approach: Mayson Mfg. Co. v. Commissioner, 178 F.2d 115 (6th Cir. 1949); nine-factor list per IRS Fact Sheet FS-2008-25
2. LabelGraphics, Inc. v. Commissioner, T.C. Memo 1998-343 — applying the Ninth Circuit's five-factor test from Elliotts, Inc. v. Commissioner, 716 F.2d 1241 (9th Cir. 1983)
3. Brewer Quality Homes, Inc. v. Commissioner, T.C. Memo 2003-200 — applying the Fifth Circuit's multi-factor test from Owensby & Kritikos, Inc. v. Commissioner, 819 F.2d 1315 (5th Cir. 1987)
4. David E. Watson, P.C. v. United States, 668 F.3d 1008 (8th Cir. 2012)

# Appendix A — Sample Written Consent

Recording this determination in a written consent of the LLC's member(s) is a recommended best practice.

The following is an example that can be adapted:

**SAMPLE TEMPLATE**

**ACTION BY WRITTEN CONSENT OF THE MANAGING MEMBER(S) OF Johnson Creative LLC**

The undersigned, constituting all managing member(s) of Johnson Creative LLC (the "Company"), take the following action by written consent, effective

_____ , 20___ :

**RESOLVED**, that the Company sets Sarah Johnson's annual compensation at $67,468 per year for services to the Company, as supported by the attached reasonable-compensation analysis.

**DISCLAIMER NOTICE**

This template is offered only as an example of language an LLC's members might use when recording the compensation figure. It is general information, not legal advice.

WageProof is not a law firm and cannot guarantee this template meets the governance requirements of your state. Have a qualified attorney review it before the members adopt it.

# Appendix B — Full Methodology

This appendix describes the methodology used to determine the reasonable compensation figure in this report.

Appendix C carries the tables that describe how this methodology was applied to this particular set of circumstances.

## B.1 The standard, and the approach applied

26 U.S.C. §162(a)(1) allows a deduction for "a reasonable allowance for salaries or other compensation for personal services actually rendered," [1] and Treas. Reg. §1.162-7(b)(3) states the standard as the amount that would ordinarily be paid for like services by like enterprises under like circumstances. [2]

The Reasonable Compensation Job Aid for IRS Valuation Professionals, a non-binding IRS reference guide, recognizes three approaches to arriving at the amount: cost, market and income. [3] This report applies the Cost Approach.

The Cost Approach divides the owner's work into tasks and prices each task on its own. For each task the report takes the published wage for one occupation, at the experience level recorded, in the labor market where the work is performed, and multiplies it by the hours devoted to the task. The sum across the tasks is the cost of replacing the owner's services with employees hired to perform each one.

## B.2 Data sources

Every wage figure in this report comes from a published Bureau of Labor Statistics table, and any adjustment to the tax year from a published BLS index. Three sources:

1. **Occupational Employment and Wage Statistics (OEWS).** This was the wage source used. A probability sample of about 1.1 million establishments, combined from six semiannual panels over three years and published annually with a May reference date. [6] One OEWS row is one SOC code (the Bureau's Standard Occupational Classification for an occupation) in one wage area, in one release, reporting the hourly and annual wage at five percentiles.
2. **OEWS area definitions.** This was the map from a county to a wage area. For each survey year BLS assigns every U.S. county to a wage area, a metropolitan area or a named nonmetropolitan area, and each release is read under its own assignment. [7]

3. **Employment Cost Index (ECI).** This is the index used to carry a wage from the survey date to the tax year when the tax year is later than the survey (see B.7). The ECI is a Bureau of Labor Statistics index that "measures the change in the hourly labor cost to employers over time." [8]

Table C.2 shows the release and the wage area this report read.
The legend under Table C.4 defines every BLS symbol that table carries.

## B.3 Inputs

This report is based on the following inputs:

- the tax year the compensation is being set for;
- the county where the work is performed;
- the annual hours the owner works; and
- the tasks the owner performs, and for each task:
  - the share of the annual hours devoted to it; and
  - the experience level, from Entry-Level to Expert.

A Cost report carries between 2 and 20 tasks; each share is a whole percentage, the shares total exactly 100, and annual hours are between 520 and 2,080 — 2,080 being 52 weeks of 40 hours. A report is produced only where the inputs fall inside those bounds and the published data the method requires exists.

Table C.1 lists the inputs that were used for this report.

## B.4 Mapping the inputs onto the data

The inputs are then mapped onto the data in four steps.

1. **Tax year to BLS release.** Where OEWS has published a release for the report's tax year, that release is used; otherwise the most recent release is used and adjusted forward (B.7).
2. **Experience level to percentile.** The experience level recorded for a task selects the percentile the wage is read at.
3. **County to wage area.** The county is matched to the wage area BLS assigned to it for the release being used and for the previous release.

4. **Task to occupation.** Each task is mapped to a BLS occupation code (SOC). The tasks offered in the task list each carry the SOC code BLS publishes wages under, and picking a task carries that code onto the report; where the list has no task for the work, the occupation search reads BLS's own occupation titles and the code of the occupation picked is the task's code. Only an occupation for which BLS published an hourly wage in that release can be picked.

BLS does not map experience to percentiles. This report maps experience level to a percentile as its stated method:

- Entry-Level (under 1 year) to the 10th percentile;
- Developing (1–3 years) to the 25th;
- Competent (3–7 years) to the median (50th);
- Experienced (7–15 years) to the 75th; and
- Expert (15+ years) to the 90th.

Table C.2 lists the release and wage area used for this report.
Table C.3 lists the BLS occupation each task was mapped to.

## B.5 Finding the published wage

Once the data is mapped, one published data row is identified for each task: the mapped occupation, in the county's wage area, on the release being used. The mapped percentile is read from that row. Where there is no such row, the search widens in this fallback order and stops at the first row BLS published:

| Step | Release read | Area read | Occupation read |
|---|---|---|---|
| 1 | The report's release | The county's BLS wage area | The occupation selected |
| 2 | The prior release | The area BLS assigned the county in that release | The occupation selected |
| 3 | The report's release | The state (or territory) table | The occupation selected |
| 4 | The report's release | The county's BLS wage area | The occupation's broad group |
| 5 | The report's release | The state (or territory) table | The occupation's broad group |
| 6 | The report's release | The national table | The occupation selected |
| 7 | The report's release | The national table | The occupation's broad group |

An occupation's broad group is the wider BLS code that contains it, the SOC code ending in 0 (27-1020 contains 27-1024). Any step after the first is recorded as a substitution.

Table C.4 shows the cell sought and what BLS published there.
Table C.5 shows each substitution, with the row used and the step that produced it.
Table C.6 shows the row used for each task after those substitutions.

## B.6 Figures BLS published as a cap

In some cases BLS records a # in the data, which means the wage has been capped at a figure BLS names for that release: a wage "equal to or greater than $115.00 per hour or $239,200 per year" on the May 2022 release and later, and "equal to or greater than $100.00 per hour or $208,000 per year" on the May 2021 release. [5] That figure is the cap, and the wage is at least that much.

Where the percentile selected is capped, the report uses the highest wage BLS published below that percentile on the same row, where that wage is above the cap. Where no published figure on the row exceeds the cap, the cap itself is used as the figure.

Table C.7 shows the cells BLS published as a cap and the figure used for each.

## B.7 Adjustment to the tax year

Once a published wage has been found for each task, it is adjusted from the survey date to the tax year using the Employment Cost Index. This report reads one series from the ECI: wages and salaries, private industry workers, index level (series CIU2020000000000I). [9]

BLS publishes that series once a quarter. Each reading is the index level for the pay period that includes the 12th of March, June, September or December. The adjustment is the ratio between two of those readings: the index level at the date the wage is carried forward to, divided by the index level at the date the wage was surveyed. This is the method BLS sets out for aging survey wage data. [10]

An OEWS release carries a May reference date, and this report sets compensation for a tax year, which begins on January 1. Each of those two dates falls between two quarterly readings, so each is placed between the readings on either side of it, one month at a time. May is two of the three months from the March reading to the June reading, so the index at May is the March reading plus two thirds of the step from March to June. January is one of the three months from the December reading to the March reading, so the index at January is the December reading plus one third of the step from December to March.

## APPENDIX B — FULL METHODOLOGY

The table below lists the index readings this report used, and the latest reading published.

| ECI reading | Index level |
|---|---|
| March 2025 | 171.900 |
| June 2025 | 173.849 |
| December 2025 | 175.885 |
| March 2026 | 177.672 |
| September 2026 | 180.575 |

> index at May of the survey year = March reading + 2 ÷ 3 × (June reading − March reading)
> index at January of the tax year = December reading + 1 ÷ 3 × (March reading − December reading)
> adjustment factor = index at January of the tax year ÷ index at May of the survey year
> adjusted wage = published wage × adjustment factor

On this report that gives an index of 173.199 at May 2025 and 176.481 at January 2026, an adjustment factor of 1.018945, and an increase of 1.89% applied to every wage read from the May 2025 release.

The index levels are used as BLS published them and the ratio is carried at full precision through the calculation; only the printed figures are rounded. The worksheet in the BLS article rounds the ratio to three decimals before applying it; this report applies the ratio at full precision, so a wage recomputed by hand from the three-decimal figures shown here can differ slightly from this report's own figure.

Where January of the tax year falls after the most recent published ECI reading, the part of the span beyond that reading is estimated: the index is carried on from the last published reading by the percentage change over the twelve months ending at it, counted at one twelfth of that percentage for each month of the remaining span.

> index beyond the last published reading = last reading × (1 + months beyond ÷ 12 × twelve-month percentage change)

Where the tax year is the survey year or earlier, the published wage is used as it is. The readings applied are the ones for the release each figure came from, so a report drawing on two releases states two adjustments and names which figures each covers.

The ECI is a national measure of wage growth for private-industry workers. BLS publishes it for broad occupational groups and a few large metropolitan areas, but not for an individual occupation or most wage areas, so the adjustment applies the economy-wide movement to every figure; B.9 discusses that limit.

Table C.8 shows, for each figure used, the release it came from, the wage as BLS published it and the adjusted wage, and states the index readings applied to each release.

## B.8 Final wage calculation

The adjusted wages are then multiplied by each task's hours, and the products summed, to produce the compensation figure.

- A task's hours are the annual hours multiplied by the share of hours recorded for it.
- A task's compensation is the adjusted hourly wage, before rounding, multiplied by those hours, rounded half-up to the cent.
- The report total is the sum of these, rounded half-up to the cent.

Hourly rates are printed rounded to the cent and each amount is computed from the rate before rounding, so a printed rate multiplied by the hours may differ slightly from the printed amount. The printed amounts add to the printed total exactly.

Table C.9 shows the multiplication for each task and foots to the report total.
The Cost Approach Detail table in the body of this report shows the figure for each task.

## B.9 Limitations

The figure B.8 produces carries a number of limitations, including:

1. **The inputs.** The duties, the hours, the county and the tax year are used as they were recorded for this report. This report does not verify them, and it is not an audit of the business or its records. The company's revenue, profitability and financial capacity are not inputs to this method: a figure it supports still has to be sustainable against what the business earns, and a figure above what the business can pay is one to review with a tax professional before it is acted on.
2. **The data.** OEWS figures are survey estimates with sampling error, published for an occupation in a wage area rather than for any individual employer. As BLS publishes occupational wages by industry only at the national level, no industry or entity-size adjustment is applied to the BLS figures.
3. **Capped figures.** Where BLS published a cap, the figure used is a floor rather than a measurement: BLS does not publish how far above the cap the wage lies.

4. **ECI adjustment.** The ECI is a national measure of wage growth for private-industry workers, not a measure for an individual occupation or most wage areas. Where January of the tax year falls after the most recent published ECI reading, the part of the span beyond that reading is estimated: the index is carried on from the last published reading by the percentage change over the twelve months ending at it, counted at one twelfth of that percentage for each month of the remaining span.

The figure is an estimate of reasonable compensation for the tax year shown, on the facts recorded. It does not carry to another year, another entity, or another set of facts. It is not tax or legal advice, and it does not guarantee any particular outcome in an examination.

# Appendix C — Supporting Tables

Appendix C carries the tables that show how the methodology in Appendix B was applied to this report, in the order the method runs:

C.1 Inputs — the figures recorded for this report.
C.2 Mapping to BLS data: tax year and county — the release and the wage area.
C.3 Mapping to BLS data: tasks — the BLS occupation each task was mapped to.
C.4 Initial BLS data lookup — the cell sought and what BLS published there.
C.5 Substitutions for missing data — each substitution and the step that produced it.
C.6 BLS OEWS data after substitutions — the row used after those substitutions.
C.7 Substitutions for capped data — the cells published as a cap and the figure used.
C.8 Final wage table with substitutions — the published wage and the adjusted wage.
C.9 Final compensation calculation — the hours multiplied by the adjusted wages and summed.

# C.1 Inputs

The inputs recorded for this report.

### TAX YEAR, COUNTY, AND HOURS WORKED

| Input | As entered |
|---|---|
| Tax year | 2026 |
| County | Franklin County, Ohio (FIPS 39049) |
| Hours worked | 2,080 per year (40 hrs/week) |

### TASKS

| T# | Task, as entered | % hours | Hours | Experience level |
|---|---|---|---|---|
| T1 | Graphic Designers | 35% | 728 | Competent (3–7 years) |
| T2 | Market Research Analysts and Marketing Specialists | 25% | 520 | Competent (3–7 years) |
| T3 | General & Operations Manager | 10% | 208 | Competent (3–7 years) |
| T4 | Secretary / Administrative Assistant | 20% | 416 | Competent (3–7 years) |
| T5 | Billing & Invoice Clerk | 10% | 208 | Competent (3–7 years) |
| Total | | 100% | 2,080 | |

# C.2 Mapping to BLS data: tax year and county

Each entry in C.1 is matched to the BLS release and wage area the report reads.

### TAX YEAR TO BLS RELEASE

| Tax year | Release read | Why this release |
|---|---|---|
| 2026 | OEWS May 2025 | BLS has published no 2026 survey. The most recent release is read and adjusted forward to the tax year. |

### COUNTY TO BLS WAGE AREA

| County, as entered | Release | Wage area read |
|---|---|---|
| Franklin County, Ohio (FIPS 39049) | May 2025 | Columbus, OH (18140), a Metropolitan Statistical Area |

One release was read, so one assignment applies.

# C.3 Mapping to BLS data: tasks

Each task in C.1 is matched to the BLS occupation the report prices it at.

### TASK TO BLS OCCUPATION

| T# | Task, as entered | SOC | BLS occupation |
|---|---|---|---|
| T1 | Graphic Designers | 27-1024 | Graphic Designers |
| T2 | Market Research Analysts and Marketing Specialists | 13-1161 | Market Research Analysts and Marketing Specialists |
| T3 | General & Operations Manager | 11-1021 | General and Operations Managers |
| T4 | Secretary / Administrative Assistant | 43-6014 | Secretaries and Administrative Assistants, Except Legal, Medical, and Executive |
| T5 | Billing & Invoice Clerk | 43-3021 | Billing and Posting Clerks |

## C.4 Initial BLS data lookup

This table shows what BLS published for each SOC code in Table C.3 in the OEWS May 2025 release, the release read for the 2026 tax year (Table C.2).

| T# | SOC | Wage area | Release | Pctl† | 10th | 25th | 50th | 75th | 90th |
|---|---|---|---|---|---|---|---|---|---|
| T1 | 27-1024 | Columbus, OH | May 2025 | 50th | $20.40 | $24.59 | $30.77 | $40.02 | $49.38 |
| T2 | 13-1161 | Columbus, OH | May 2025 | 50th | $19.93 | $27.40 | $37.02 | $48.55 | $62.87 |
| T3 | 11-1021 | Columbus, OH | May 2025 | 50th | $24.25 | $32.86 | $49.32 | $78.86 | $106.38 |
| T4 | 43-6014 | Columbus, OH | May 2025 | 50th | $16.37 | $18.97 | $23.01 | $26.77 | $30.38 |
| T5 | 43-3021 | Columbus, OH | May 2025 | 50th | $19.27 | $21.47 | $22.75 | $24.76 | $29.76 |

† The percentile is the percentile sought under the methodology in Appendix B, section 4.

**WHERE THESE FIGURES COME FROM**

This report's wage data is loaded from all_data_M_2025.xlsx in bls.gov/oes/special-requests/oesm25all.zip. The shaded cell is the percentile the experience level selects.

## C.5 Substitutions for missing data

No substitutions for missing data were needed.

## C.6 BLS OEWS data after substitutions

No substitutions were made; the data in C.4 was used as published.

## C.7 Substitutions for capped data

None of the figures this report used were capped by BLS.

## C.8 Final wage table with substitutions

This table shows the BLS OEWS hourly wages the report priced from, as published and as adjusted to the tax year under the method in Appendix B, section 7.

| T# | BLS occupation | Wage area | Release | BLS percentile | As published | Hourly rate* |
|---|---|---|---|---|---|---|
| T1 | Graphic Designers (27-1024) | Columbus, OH | May 2025 | 50th | $30.77 | $31.35 |
| T2 | Market Research Analysts and Marketing Specialists (13-1161) | Columbus, OH | May 2025 | 50th | $37.02 | $37.72 |
| T3 | General and Operations Managers (11-1021) | Columbus, OH | May 2025 | 50th | $49.32 | $50.25 |
| T4 | Secretaries and Administrative Assistants, Except Legal, Medical, and Executive (43-6014) | Columbus, OH | May 2025 | 50th | $23.01 | $23.45 |
| T5 | Billing and Posting Clerks (43-3021) | Columbus, OH | May 2025 | 50th | $22.75 | $23.18 |

Hourly rates are printed rounded to the cent and each amount is computed from the rate before rounding, so a printed rate multiplied by the hours may differ slightly from the printed amount. The printed amounts add to the printed total exactly.

* The adjustments applied under the method in Appendix B, section 7: May 2025 wages carried forward from an ECI index of 173.199 at May 2025 to 176.481 at January 2026, a factor of 1.018945.

# C.9 Final compensation calculation

This table multiplies the hours in Table C.1 by the adjusted wages in Table C.8 and sums the results to the total reasonable compensation figure.

| T# | Task | Hourly rate | Hours | Amount |
|---|---|---|---|---|
| T1 | Graphic Designers | $31.35 | 728 | $22,824.95 |
| T2 | Market Research Analysts and Marketing Specialists | $37.72 | 520 | $19,615.11 |
| T3 | General & Operations Manager | $50.25 | 208 | $10,452.91 |
| T4 | Secretary / Administrative Assistant | $23.45 | 416 | $9,753.51 |
| T5 | Billing & Invoice Clerk | $23.18 | 208 | $4,821.65 |
| Total reasonable compensation | | | 2,080 | $67,468.13 |

Hourly rates are printed rounded to the cent and each amount is computed from the rate before rounding, so a printed rate multiplied by the hours may differ slightly from the printed amount. The printed amounts add to the printed total exactly.

# References


**[1]** 26 U.S.C. §162(a)(1). Office of the Law Revision Counsel, U.S. House of Representatives, uscode.house.gov.

**[2]** Treas. Reg. §1.162-7, 26 C.F.R. §1.162-7. U.S. Government Publishing Office, govinfo.gov.

**[3]** Reasonable Compensation Job Aid for IRS Valuation Professionals. Internal Revenue Service, irs.gov/pub/irs-lbi/Reasonable%20Compensation%20Job%20Aid%20for%20IRS%20Valuation%20Professionals.pdf.

**[4]** IRS Fact Sheet FS-2008-25: Wage Compensation for S Corporation Officers. Internal Revenue Service, irs.gov/pub/irs-news/fs-08-25.pdf.

**[5]** Occupational Employment and Wage Statistics: Frequently Asked Questions. Bureau of Labor Statistics, bls.gov/oes/oes_ques.htm. May 2021 National Occupational Employment and Wage Estimates, footnote 5. Bureau of Labor Statistics, bls.gov/oes/2021/may/oes_nat.htm.

**[6]** Handbook of Methods: Occupational Employment and Wage Statistics. Bureau of Labor Statistics, bls.gov/opub/hom/oews (Data Sources; Design).

**[7]** OEWS Metropolitan and Nonmetropolitan Area Definitions. Bureau of Labor Statistics, bls.gov/oes/2025/may/msa_def.htm.

**[8]** Employment Cost Index. Bureau of Labor Statistics, bls.gov/eci.

**[9]** Series CIU2020000000000I: Employment Cost Index, wages and salaries, private industry workers, index level. Bureau of Labor Statistics, data.bls.gov (series CIU2020000000000I).

**[10]** Shelly, Wayne M. "Aging Wage Survey Data Using the Employment Cost Index." Bureau of Labor Statistics, Compensation and Working Conditions, 2008. bls.gov/opub/mlr/cwc/aging-wage-survey-data-using-the-employment-cost-index.pdf.

**[11]** Occupational Employment and Wage Statistics, May 2025 estimates (all_data_M_2025.xlsx). Bureau of Labor Statistics, bls.gov/oes/special-requests/oesm25all.zip.